

Securities Division Identifies Top 10 Traps Facing Investors

The Securities Division of the Department of Business Regulation today released its annual forecast of the Top 10 Traps likely to ensnare investors.

"The path to safe investing is littered with traps that are likely to catch unwary investors. It always pays to remember that any investment that sounds too good to be true, usually is," said Maria L. D'Alessandro, Associate Director & Superintendent of Securities.

"Investor traps are usually baited with slick sales pitches promising high returns for little or no risk," D'Alessandro said, noting that investors also can be trapped by legitimate investment products that are suitable for some investors, but not all.

Before making any investment, D'Alessandro urged investors to verify that both the salesperson and the investment are licensed and registered in Rhode Island and that they receive adequate written information that fully explains the investment.

The Securities Division's Top 10 Traps for investors:

Affinity Fraud. Con artists are increasingly targeting religious, ethnic, cultural and professional groups. Some may be members of the group or pretend to be members in order to gain trust. Con artists often recruit a respected member of a community or religious congregation to promote their schemes by convincing them that a fraudulent investment is legitimate. In many cases, even these leaders become victims of what turns out to be a Ponzi scheme. *Remember: Investigate before you invest – no matter who is selling.*

Foreign Exchange Trading. Foreign exchange ("forex") trading can be legitimate for governments and businesses concerned about fluctuations in international currencies, and it can even be appropriate for some individual investors. But the average investor should be wary when it comes to these complex markets. Forex scams attract customers with sophisticated-sounding offers placed in newspaper advertisements, radio promotions, or on Internet sites. *Remember: If you don't understand an investment, don't invest.*

Internet Fraud. Scammers continue to take advantage of technology to lure investors into "pump-and-dump" stock schemes. Be wary of investments being pitched through unsolicited e-mails, instant messages, and phony websites. *Remember: The internet can be a con artist's dream – easy access to you and your money, with no "return address" if the deal goes sour.*

Investment Seminars. Promoters of unsuitable investments are increasingly seeking potential investors, particularly seniors, by offering seminars, many of them promising a free meal along with "higher returns and little or no risk." Unfortunately, in many of the cases that securities regulators see, it's just the opposite: high risk and no returns, just disastrous losses. *Remember: There's no such thing as a free lunch.*

Oil and Gas Scams. Rising oil and natural gas prices have made a variety of traditional and alternative energy projects attractive to investors. Most of these investments are highly risky and not appropriate for smaller investors. *Remember: Con artists tend to follow the headlines.*

Prime Bank Schemes. Often promising high-yield, tax-free returns, promoters of these schemes offer to let the "little guy" in on what they claim are financial instruments from elite overseas banks usually offered only to the world's wealthiest investors. Prime banks do not exist and the scam artists have no intention of creating a profit for anyone but themselves. *Remember: Often the most sophisticated sounding investments are just false promises in fancy garb.*

Private Securities Offerings. Con artists are turning increasingly to private securities offerings under Rule 506 Regulation D of the Securities Act of 1933 to attract investors without having to go through the full registration process. Although sometimes legitimate, these offerings are often associated with fraud. *Remember: Especially with lightly regulated investment offerings, it pays to consult a trusted financial adviser.*

Real Estate Investment Contracts. Despite the recent decline in property values, investments in real estate long have been viewed as a “sure thing,” one with little downside risk and the potential for substantial returns. Some real estate investments are securities subject to full regulation under the state and federal securities laws, including registration requirements and antifraud rules. *Remember: Just because an investment involves real estate – or pay phones or worm farms – it still may be a security, so check with your state securities regulator.*

Unlicensed Individuals & Unregistered Products. Anyone selling securities or providing investment advice about buying or selling securities must be appropriately licensed. Anyone engaging in these activities without a valid license to do so should be a red alert for investors. Con artists also bypass stringent state registration requirements to pitch viatical settlements, pay telephone and ATM leasing contracts, and other investment contracts with the promise of “limited or no risk” and high returns. *Remember: Carefully check out anyone offering to help you buy or sell securities or providing investment advice.*

Unsuitable Sales. What might be a suitable investment for one investor might not be right for another. Securities professionals must know their customers’ financial situation and refrain from recommending investments that they have reason to believe are unsuitable. For example, variable and equity indexed annuities are often unsuitable for senior citizens because those products are generally long-term investments that limit access to invested funds. But sales agents stand to earn high commissions on these investment products so they don’t always adhere to the suitability standards – with dire consequences for seniors. *Remember: Make sure your investments match up with your age, your need for access to money, and your risk tolerance.*

D'Alessandro advised investors to contact the Securities Division at **222-3048** with any questions about an investment product, broker or adviser, before making an investment. “The best time to call us is before you part with your hard earned money,” she said. “It only takes one bad and usually uninformed decision to wipe out your savings”.